

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature	Printed Name		License Number	

BRIGHTON AREA
FIRE AUTHORITY

REPORT ON AUDIT OF
FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

BRIGHTON AREA FIRE AUTHORITY

AUTHORITY BOARD

Michael Corrigan
Geri Harmon
Katherine Jones
Gary McCririe
James Mortensen
Tim Winship
Kate Lawrence

ATTORNEY

Neal Nielsen, P.C.

AUDITORS

Pfeffer, Hanniford & Palka
Certified Public Accountants

TABLE OF CONTENTS

	<u>PAGE NUMBER</u>
INDEPENDENT AUDITORS' REPORT	
MANAGEMENT DISCUSSION AND ANALYSIS	6
BASIC FINANCIAL STATEMENTS	
GOVERNMENT-WIDE FINANCIAL STATEMENTS	
Statement of Net Assets	14
Statement of Activities	15
FUND FINANCIAL STATEMENTS	
Balance Sheets - Governmental Funds	17
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	18
Statement of Fiduciary Net Assets - Fiduciary Fund	19
Statement of Changes in Fiduciary Net Assets - Fiduciary Fund	20
NOTES TO FINANCIAL STATEMENTS	22
REQUIRED SUPPLEMENTARY INFORMATION	
Statements of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual	
General Fund	30
Capital Reserve Equipment Fund	31
Schedule of Pension Funding Progress (Unaudited)	32
<u>SUPPLEMENTARY INFORMATION</u>	
Combining Balance Sheet - Special Revenue Funds	34
Combining Statement of Revenues, Expenditures and Changes in Fund Balance - Special Revenue Funds	35
Statement of Expenditures - Budget and Actual - General Fund	36



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October 30, 2006

Board of Trustees
Brighton Area Fire Authority
615 W. Grand River
Brighton, Michigan 48116

INDEPENDENT AUDITORS' REPORT

Honorable Board of Trustees:

We have audited the accompanying financial statements of the Brighton Area Fire Authority as of and for the year ended June 30, 2006. These financial statements are the responsibility of the Authority Board. Our responsibility is to express an opinion on these financial statements based on the audit.

We conducted the audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that the audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Brighton Area Fire Authority, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year end in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and other required supplementary information on pages 6 - 11 and pages 30 to 32 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Brighton Area Fire Authority's basic financial statements. The supplementary information presented for purposes of additional analysis is not a required part of the basic financial statements. The supplementary information has not been subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on them.

Pfeffer, Hanniford & Palka, P.C.

PFEFFER, HANNIFORD & PALKA
Certified Public Accountants

MANAGEMENT DISCUSSION
AND
ANALYSIS

Management Discussion and Analysis June 30, 2006

Within this section of the Brighton Area Fire Authority's annual financial report, the Authority's management is providing a narrative discussion and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2006. This narrative discusses and analyzes the activity within the context of the accompanying financial statements and disclosures following this section. The discussion focuses on the Authority's primary government and, unless otherwise noted, component units reported separately from the primary government are not included.

Overview of the Financial Statements

Management's Discussion and Analysis introduces the Authority's basic financial statements. The basic financial statements include government-wide financial statements, fund financial statements, and notes to the financial statements. The Authority also includes in this report additional information to supplement the basic financial statements.

Government-Wide Financial Statements

The Authority's annual reports include two government-wide financial statements. These statements provide both long-term and short-term information about the Authority's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of these government-wide statements is the Statement of Net Assets. This is the Authority-wide statement of position presenting information that includes all the Authority's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority as a whole is improving or deteriorating. Evaluation of the overall health of the Authority may extend to various non-financial factors as well.

The second government-wide statement is the Statement of Activities which reports how the Authority's net assets changed during the current fiscal year. The design of this statement is to show the financial reliance of the Authority's distinct activities or functions on the revenues generated by the Authority.

Both government-wide financial statements distinguish governmental activities of the Authority that are intended to recover all or a significant portion of their costs through user fees and charges or by taxes collected. The Authority's financial reporting includes all the funds of the Authority and, additionally, organizations for which the Authority is accountable.

Fund Financial Statements

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The Authority uses funds to ensure and demonstrate compliance with finance-related laws and regulations.

The Authority has two kinds of funds:

Governmental funds are reported in the financial statements and encompass essentially the same functions as governmental activities in the government-wide financial statements except with a different focus on the financial activity. These statements report short-term fiscal accountability focusing on the use of spendable resources and balances of these resources available at the end of the year. They are useful in evaluating annual financing requirements of governmental programs and the commitment of spendable resources for the near-term. Since the focus of the government-wide financial statements includes a long-term view, a reconciliation of these fund balances has been completed to detail its relation to net assets.

Fiduciary funds are reported in the fund financial statements and are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs of providing goods or services to the public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purpose.

Notes to the financial statements

The accompanying notes to the financial statements provide information essential to a full understanding of both the government-wide and fund financial statements.

Other information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. Other supplementary information includes detail by fund for receivables, payables, transfers, and payments within the reporting entity.

Financial Analysis of the Authority as a Whole

The Authority's net assets at the end of the fiscal year were \$3,359,191. This is a \$257,802 increase over last year's net assets of \$3,101,389.

The following tables provide a summary of the Authority's financial activities and changes in net assets:

Summary of Net Assets

	<u>6/30/2005</u>	<u>6/30/2006</u>
Current and other assets	\$ 2,169,660	\$ 2,450,403
Capital assets	<u>1,077,812</u>	<u>1,173,972</u>
Total assets	<u>3,247,472</u>	<u>3,624,375</u>
Accounts payable	42,357	151,890
Accrued expenses	<u>103,726</u>	<u>113,294</u>
Total liabilities	<u>146,083</u>	<u>265,184</u>
Net assets:		
Invested in capital assets	1,077,812	925,400
Unrestricted	<u>2,023,577</u>	<u>2,433,791</u>
Total net assets	<u>\$ 3,101,389</u>	<u>\$ 3,359,191</u>

Summary of Changes in Net Assets

	Governmental Activities 6/30/2005	Governmental Activities 6/30/2006
Revenues:		
Program revenues		
Charges for services	\$ 39,456	\$ 24,300
Operating grants and contributions	7,778	13,196
Capital grants and contributions		92,600
General revenues		
Property taxes	2,125,376	2,280,621
Other	31,550	87,660
Total revenues	<u>2,204,160</u>	<u>2,498,377</u>
Expenses for fire protection	<u>2,049,195</u>	<u>2,240,575</u>
Increase in net assets	154,965	257,802
Beginning net assets	<u>2,946,424</u>	<u>3,101,389</u>
Ending net assets	<u><u>\$ 3,101,389</u></u>	<u><u>\$ 3,359,191</u></u>

Changes in Financial Status

The increase in net assets of \$257,802 in the current year is typical for the Brighton Area Fire Authority. This increase is essential for fire departments in order to fund future capital improvements and the increasing costs of operations.

Financial Analysis of the Authority's Funds

The Authority's General Fund had revenues over expenditures from current year operations totaling \$475,307 to add to its fund balance. Of this amount \$180,000 was transferred to fund capital outlay purchases and anticipated personnel expenditures. Significant capital outlay was purchased this year totaling \$156,008 from the capital reserve equipment fund. The Authority purchases all capital outlay from the capital reserve fund.

General Fund Budgetary Highlights

The original General Fund budget adopted by the Authority was created prior to the beginning of the fiscal year outlining the Authority's anticipated financial operations. Small amendments were required from the originally adopted budget to reflect economic reality. Expenditures exceeded the budget in three activities, but was under the total budget by \$110,524.

Capital Asset and Debt Administration

The Authority put \$330,103 of new assets into service. That total included the following items:

	<u>Cost</u>
Power Hurst cutter	\$ 11,575
Two rescue vehicles	290,000
Utility vehicle	<u>28,528</u>
	<u>\$ 330,103</u>

The Authority disposed of and sold five (5) vehicles during the year. The two (2) rescue vehicles shown were paid for in the prior year, but put into service the year ended June 30, 2006.

For the year ended June 30, 2006 there was no debt either acquired or extinguished.

Economic Conditions and Future Activities

Future operations and capital outlay purchases will be funded primarily by property taxes collected. This amount is expected to increase next year due to a voter approved millage increase from 1.0 to 1.25. The new millage runs for the period December 2006 through December 2010 (5 years).

Contacting the Authority's Financial Management

This report is designed to provide a general overview of the Authority's financial position and comply with finance-related regulations. If you have any further questions about this report or request additional information please contact the Brighton Area Fire Authority.

BASIC
FINANCIAL
STATEMENTS

GOVERNMENT - WIDE
FINANCIAL
STATEMENTS

BRIGHTON AREA FIRE AUTHORITY
STATEMENT OF NET ASSETS
JUNE 30, 2006

Governmental
Activities

ASSETS

Cash and cash equivalents	\$ 2,398,374
Accounts receivable	52,029
Capital assets - net of depreciation	<u>1,173,972</u>
Total assets	<u>3,624,375</u>

LIABILITIES

Accounts payable	151,890
Accrued expenses	<u>113,294</u>
Total liabilities	<u>265,184</u>

NET ASSETS

Investment in capital assets	925,400
Unrestricted	<u>2,433,791</u>
Total net assets	<u>\$ 3,359,191</u>

The notes are an integral part of the financial statements.

BRIGHTON AREA FIRE AUTHORITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

	PROGRAM REVENUES				
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Net Governmental Activities</u>
GOVERNMENTAL ACTIVITIES					
Fire protection services	\$ (2,240,575)	\$ 24,300	\$ 13,196	\$ 92,600	\$ (2,110,479)
General Revenues:					
Property taxes, levied for general purpose					2,280,621
Investment income					52,561
Other revenues					19,896
Gain on sale of capital assets					<u>15,203</u>
Total general revenues					<u>2,368,281</u>
Change in net assets					257,802
Net assets, July 1, 2005					<u>3,101,389</u>
Net assets, June 30, 2006					<u>\$ 3,359,191</u>

The notes are an integral part of the financial statements.

FUND
FINANCIAL
STATEMENTS

BRIGHTON AREA FIRE AUTHORITY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	<u>Major Funds</u>		<u>Non-major Fund</u>	
		Capital Reserve Equipment Fund	Compensated Absences Reserve Fund	
<u>ASSETS</u>	<u>General</u>			<u>Total</u>
ASSETS				
Cash and cash equivalents	\$ 1,558,460	\$ 784,095	\$ 55,819	\$ 2,398,374
Accounts receivable	5,586	46,443		52,029
Due from other funds		10,706		10,706
Total assets	<u>\$ 1,564,046</u>	<u>\$ 841,244</u>	<u>\$ 55,819</u>	<u>\$ 2,461,109</u>
<u>LIABILITIES AND FUND BALANCE</u>				
LIABILITIES				
Accounts payable	\$ 123,362	\$ 28,528	\$	\$ 151,890
Accrued wages	35,781			35,781
Accrued vacation and sick	42,234			42,234
Accrued pension and withholding	35,279			35,279
Due to other funds	10,706			10,706
Total liabilities	<u>247,362</u>	<u>28,528</u>		<u>275,890</u>
FUND BALANCES				
Unreserved	1,316,684			1,316,684
Designated		812,716	55,819	868,535
Total fund balances	<u>1,316,684</u>	<u>812,716</u>	<u>55,819</u>	<u>2,185,219</u>
Total liabilities and fund balances	<u>\$ 1,564,046</u>	<u>\$ 841,244</u>	<u>\$ 55,819</u>	<u>\$ 2,461,109</u>

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Fund balance - governmental funds \$ 2,185,219

Capital assets used in governmental activities are not
current financial resources and therefore are not
reported in the balance sheet:

Historical cost \$ 3,369,314
Accumulated depreciation (2,195,342)

Net book value of capital assets 1,173,972

Net assets of governmental activities \$ 3,359,191

The notes are an integral part of the financial statements.

BRIGHTON AREA FIRE AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	Major Funds		Other Non-major Fund	Total
	General Fund	Capital Reserve Equipment Fund	Compensated Absences Reserve Fund	
REVENUES				
Taxes	\$ 2,280,621	\$	\$	\$ 2,280,621
Cost recovery		24,300		24,300
Grant - federal	13,196	92,600		105,796
Sale of assets		21,189		21,189
Interest	32,825	18,482	1,254	52,561
Miscellaneous	19,896			19,896
Total revenues	<u>2,346,538</u>	<u>156,571</u>	<u>1,254</u>	<u>2,504,363</u>
EXPENDITURES				
Personnel	1,093,451		25,482	1,118,933
Contracted services	370,191			370,191
Capital outlay		156,008		156,008
General fire protection	407,589			407,589
Total expenditures	<u>1,871,231</u>	<u>156,008</u>	<u>25,482</u>	<u>2,052,721</u>
Excess of revenues over (under) expenditures	<u>475,307</u>	<u>563</u>	<u>(24,228)</u>	<u>451,642</u>
OTHER FINANCING SOURCES (USES)				
Transfers in		180,000	35,000	215,000
Transfers (out)	(215,000)			(215,000)
Total other financing sources (uses)	<u>(215,000)</u>	<u>180,000</u>	<u>35,000</u>	
Net changes in fund balances	260,307	180,563	10,772	451,642
FUND BALANCE, JULY 1, 2005	<u>1,056,377</u>	<u>632,153</u>	<u>45,047</u>	<u>1,733,577</u>
FUND BALANCE, JUNE 30, 2006	<u>\$ 1,316,684</u>	<u>\$ 812,716</u>	<u>\$ 55,819</u>	<u>\$ 2,185,219</u>

Amounts reported for governmental activities in the Statement of Activities are different due to:

Net changes in fund balances \$ 451,642

The sale of capital assets are reported as revenues in the governmental funds. However, for the governmental Statement of Activities this is reported a gain/loss based upon proceeds and net book value.

Historical cost of asset disposed	\$ (227,018)
Related accumulated depreciation	<u>221,032</u>

Net book value of asset disposed (5,986)

The acquisition of capital assets are reported in the governmental funds as expenditures. However, for governmental activities those costs are shown as capital assets in the Statement of Net Assets and allocated over their useful lives as annual depreciation expense in the Statement of Activities. This is the amount by which capital asset purchases are exceeded by depreciation expense in the current period:

Capital asset acquisitions	\$ 40,103
Depreciation expense	<u>(227,957)</u>

Total (187,854)

Change in net assets of governmental activities \$ 257,802

The notes are an integral part of the financial statements.

BRIGHTON AREA FIRE AUTHORITY
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2006

	Private- Purpose Trust Fund
ASSETS	
Cash and cash equivalents	<u>\$ 23,387</u>
 NET ASSETS	 <u>\$ 23,387</u>

The notes are an integral part of the financial statements.

BRIGHTON AREA FIRE AUTHORITY
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Private- Purpose Trust Fund</u>
ADDITIONS	
Public contributions	\$ 18,500
DEDUCTIONS	
Public safety	<u>22,354</u>
Net change in net assets	(3,854)
NET ASSETS, JULY 1, 2005	<u>27,241</u>
NET ASSETS, JUNE 30, 2006	<u><u>\$ 23,387</u></u>

The notes are an integral part of the financial statements.

NOTES
TO
FINANCIAL
STATEMENTS

BRIGHTON AREA FIRE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The Brighton Area Fire Authority was organized under Public Act No. 57, of the Public Acts of 1988, as amended. The Brighton Area Fire Authority Board is appointed by each municipality. The Genoa Township, City of Brighton, and Brighton Township boards each appoint two members to the Brighton Area Fire Authority Board. One final member is selected by these six appointed members. The Authority was created as a joint venture by its members on May 4, 2000 to provide fire protection.

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 39 "The Financial Reporting Entity", these financial statements present all activities of the Authority. There are no component units of the Authority using the criteria established by the GASB for determining the reporting entity.

B. BASIC FINANCIAL STATEMENTS

In accordance with GASB Statement No. 34 - *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, the basic financial statements include both government-wide and fund financial statements.

The government-wide financial statements (Statement of Net Assets and Statement of Activities) report on the Authority as a whole. All activities are reported in the government-wide financial statements using the economic resources measurement focus and the accrual basis of accounting, which includes long-term assets and receivables as well as long-term debt and obligations. The government-wide financial statements focus more on the sustainability of the Authority as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

The government-wide Statement of Net Assets reports all financial and capital resources of the Authority. It is displayed in a format of assets less liabilities equals net assets, with the assets and liabilities shown in order of their relative liquidity.

The government-wide Statement of Activities demonstrates the degree to which both direct and indirect expenses of the various functions and programs of the Authority are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or identifiable activity. Indirect expenses for administrative overhead are allocated among the functions and activities using a full cost allocation approach and are presented separately to enhance comparability of direct expense between governments that allocate direct expenses and those that do not. Program revenues include: 1) charges to customers or users who purchase, use or directly benefit from goods, services or privileges provided by a particular function or program and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or program. Taxes, unrestricted investment income and other revenues not identifiable with particular functions or programs are included as general revenues. The general revenues support the net costs of the functions and programs not covered by program revenues.

BRIGHTON AREA FIRE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Also, part of the basic financial statements are fund financial statements for the governmental funds. The focus of the fund financial statements is on major funds, as defined by GASB Statement No. 34. Although this reporting model sets forth minimum criteria for determination of major funds (a percentage of assets, liabilities, revenues, or expenditures of fund category and of the governmental funds combined), it also gives governments the option of displaying other funds as major funds. Other non-major funds are combined in a single column on the fund financial statements.

The Authority reports the following major governmental funds:

The General Fund is the Authority's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Capital Reserve Equipment Fund accounts for the activity associated with the acquisition of capital assets. This fund is supported by the General Fund and costs recovery revenues.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The governmental fund and fiduciary financial statements are prepared on a current financial resources measurement focus and modified accrual basis of accounting. To conform to the modified accrual basis of accounting, certain modifications must be made to the accrual method. These modifications are outlined below:

- A. Revenue is recorded when it becomes both measurable and available (received within 60 days after year-end). Revenue considered susceptible to accrual includes: property taxes, sales and use taxes, transient occupancy taxes, licenses, fees and permits, intergovernmental revenues, (including motor vehicle license fees), charges for services, fines, forfeits and penalties, and interest.
- B. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year.
- C. Disbursements for the purchase of capital assets providing future benefits are considered expenditures. Bond proceeds are reported as another financing source.

With this measurement focus, operating statements present increases and decreases in net current assets and unreserved fund balance as a measure of available spendable resources.

This is the traditional basis of accounting for governmental funds and also is the manner in which these funds are normally budgeted. This presentation is deemed most appropriate to: 1) demonstrate legal and covenant compliance, 2) demonstrate the sources and uses of liquid resources, and 3) demonstrate how the Authority's actual revenues and expenditures conform to the annual budget. Since the governmental funds financial statements are presented on a different basis than the governmental activities column of the government-wide financial statements, a reconciliation is provided immediately following each fund statement. These reconciliations briefly explain the adjustments necessary to transform the fund financial statements into the governmental activities column of the government-wide financial statements.

BRIGHTON AREA FIRE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

D. CAPITAL ASSETS

Under GASB Statement No. 34, all capital assets are recorded and depreciated in the government-wide financial statements. No long-term capital assets or depreciation are shown in the governmental funds financial statements.

Capital assets are defined as assets with an initial, individual cost of more than \$5,000 and an estimated useful life greater than one year. Capital assets are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

E. MANAGEMENT ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

F. BUDGETS

An annual operating budget on the modified accrual basis of accounting consistent with accounting principles generally accepted in the United States of America is formally adopted for the General Fund and all Special Revenue funds. The budget can be amended by approval from the Authority's Board. If necessary, budget amendments can be presented to the Board at the regular meetings. The budget amounts shown in the financial statements are the final authorized amounts as revised during the year. All annual appropriations lapse at the fiscal year end. Total actual expenditures exceeded budgeted appropriations for the year ending June 30, 2006 in three activities.

G. RISK MANAGEMENT

The Authority is exposed to various risks of loss pertaining to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Authority has purchased commercial insurance for these claims. Settled claims related to the commercial insurance have not exceeded the amount of insurance coverage.

BRIGHTON AREA FIRE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

H. ACCRUED COMPENSATED ABSENCES

The Authority has recorded a liability for compensated absences of the fire department. The policies regarding compensated absences are outlined in the Authority's "Rules of Employment".

I. PROPERTY TAXES

The Authority's property taxes are levied and become a lien on December 1st based on the taxable valuation of property located in the Authority as of the preceding December 31st. These taxes are due on February 14th, with the final collection date of February 28th before they are added to the county delinquent tax rolls.

For the year ended June 30, 2006, the Authority recognized the property taxes levied December 1, 2005 as revenue. Total taxable value was \$2,396,320,952 and the millage rate was set at .9532.

NOTE 2 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006 was as follows:

	Balances 7-01-05	Additions	Deletions	Balances 6-30-06
Office equipment	\$ 111,853	\$	\$	\$ 111,853
Operating equipment	475,455	11,575		487,030
Leasehold improvements	20,492			20,492
Transportation equipment	<u>2,658,429</u>	<u>318,528</u>	<u>227,018</u>	<u>2,749,939</u>
	3,266,229	330,103	(227,018)	3,369,314
Accumulated depreciation	<u>(2,188,417)</u>	<u>(227,957)</u>	<u>221,032</u>	<u>(2,195,342)</u>
Governmental activities capital assets, net	<u>\$ 1,077,812</u>	<u>\$ 102,146</u>	<u>\$ (5,986)</u>	<u>\$ 1,173,972</u>

Depreciation expense is being recorded solely for fire protection services. The Authority utilizes the straight line method to depreciate capital assets over their estimated useful lives. No debt is associated with the capital assets.

BRIGHTON AREA FIRE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 3 - DEFERRED COMPENSATION AND DEFINED CONTRIBUTION PLANS

The Authority offers its full-time and part-time firefighters a deferred compensation plan in accordance with Internal Revenue Code (IRC) Section 457.

The Authority also provides a defined contribution plan under Internal Revenue Code (IRC) Section 401a for the full-time and part-time firefighters. The terms are as follows:

Full-time Firefighters - the Authority contributes on behalf of each full-time firefighter 5% of the employees' base wage. The contribution for the year ending June 30, 2006 was \$13,841.

Part-time Firefighters - the Authority only contributes on behalf of each part-time firefighter if the employee makes a contribution to his or her 457 plan. The amount the Authority contributes is the lesser of the amount the employee contributed or 5% of gross wages. The contribution for the year ending June 30, 2006 was \$12,656.

The Authority has a separate plan agreement with the Fire Chief. The Chief has been provided with a 457 plan as well as a 401a plan. The Authority contributes on behalf of the Chief 12% of his base wage into the 401a plan. For the year ending June 30, 2006, the contribution was \$9,735.

Total contributions by the Authority toward the 401a plans for the year ending June 30, 2006, was \$36,232.

**NOTE 4 - DEFINED BENEFIT PLAN -
MICHIGAN MUNICIPAL EMPLOYEES RETIREMENT SYSTEM (MERS)**

This plan was grandfathered into the Authority from the City of Brighton and Brighton Township on July 1, 2002. Only current full time employees that transferred over from the aforementioned municipalities are allowed to participate in this plan.

MERS is an agent multiple-employer, state-wide, defined benefit public employee retirement plan created under Public Act 135 of 1945 and now operates under Public Act 220 of 1996. MERS was established by the State of Michigan for purposes of providing retirement, survivor and disability benefits on a voluntary basis to the State's local government employees. Under Public Act 220, MERS became an independent public non-profit corporation independent from State government. The effective date of independence was August 16, 1996, at which time MERS ceased to be a part of the State of Michigan, Department of Management and Budget.

BRIGHTON AREA FIRE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 4 - DEFINED BENEFIT PLAN -
MICHIGAN MUNICIPAL EMPLOYEES RETIREMENT SYSTEM (MERS) - continued

At December 31, 2005, the under funded pension obligation was \$79,553, determined as follows:

Actuarial Accrued Liability

Retirees and beneficiaries currently receiving benefits	\$
Terminated employees not yet receiving benefits	197,045
Current employees - Accumulated employee contributions including allocated investment income	2,681
Employer financed	<u>153,861</u>
Total actuarial accrued liability	353,587
Net assets available for benefits at actuarial value	<u>274,034</u>
Under funded actuarial accrued liability	<u>\$ 79,553</u>
Fiscal year beginning	July 1, 2007
Annual required contribution	\$ 43,668
Amortization factor used - underfunded liabilities (30 years)	.053632

Due to an administrative error the MERS plan was incorrectly set-up for the Authority. There should only be two (2) working and one (1) retired employee enrolled in the MERS defined benefit plan. However, the last actuarial report issued shows 7 employees are being covered. The Authority is currently resolving the issue. Apparently, MERS believed the Authority was offering the plan to all full time employees. This was not the intent of the Authority. The Authority's intent for all new full time employees hired after the Authority was incorporated were to be put into a defined contribution plan.

Covered and total payrolls for the year ended was \$290,150 and \$873,429 respectively. As of June 30, 2006 there was one retirant receiving benefits from the plan. Total contributions made to the plan during the year ended was \$52,981.

BRIGHTON AREA FIRE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 5 - DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the Authority to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers; acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The Authority deposits are in accordance with statutory authority. The Authority maintains petty cash with an imprest amount of \$200.

The Governmental Accounting Standards Board Statement No. 3 risk disclosures for the Authority's deposits are as follows:

<u>Deposits</u>	<u>Governmental Funds</u>	<u>Private-Purpose Trust Fund</u>	<u>Total Carrying Amount</u>	<u>Bank Balance</u>
Insured\$	100,000 \$	\$	100,000 \$	100,000
Uninsured and uncollateralized	<u>2,298,174</u>	<u>23,387</u>	<u>2,321,561</u>	<u>2,454,497</u>
	<u>\$ 2,398,174</u>	<u>\$ 23,387</u>	<u>\$ 2,421,561</u>	<u>\$ 2,554,497</u>

NOTE 6 - FEDERAL GRANT ACTIVITIES

The Authority has received federal grants from both the United States Department of Homeland Security and FEMA. The total amount awarded was \$144,416. The Authority must match an additional \$10,288 as its required 10% match. The funds received from the United States Department of Homeland Security and FEMA are subject to all federal grant audit requirements. There has been no federal audit on the funds through the report date of these financial statements.

REQUIRED
SUPPLEMENTARY
INFORMATION

BRIGHTON AREA FIRE AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006

	Budgets			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Property taxes	\$ 2,185,000	\$ 2,283,571	\$ 2,280,621	\$ (2,950)
Grant - federal		10,382	13,196	2,814
Interest	12,000	21,500	32,825	11,325
Other income	7,500	20,118	19,896	(222)
Total revenues	<u>2,204,500</u>	<u>2,335,571</u>	<u>2,346,538</u>	<u>10,967</u>
EXPENDITURES				
Personnel	1,154,260	1,100,205	1,093,451	6,754
Professional services	31,000	49,500	40,191	9,309
Insurance	115,000	131,500	101,602	29,898
Equipment and supplies	188,500	189,700	156,172	33,528
Utilities	50,000	49,750	43,428	6,322
Contract - Howell Fire	330,000	330,000	330,000	
Dues and subscriptions	9,000	7,500	7,562	(62)
Physicals and vaccines	15,000	15,000	7,200	7,800
Training and instructions	34,200	32,000	27,831	4,169
Telephone and communications	26,000	26,000	27,834	(1,834)
Vehicle lease	11,000	11,000	10,560	440
Buildings	17,500	24,600	25,400	(800)
Emergency funds	10,000	10,000		10,000
Fire investigation services	5,000	5,000		5,000
Total expenditures	<u>1,996,460</u>	<u>1,981,755</u>	<u>1,871,231</u>	<u>110,524</u>
Excess of revenues over expenditures	208,040	353,816	475,307	121,491
OTHER FINANCING (USES)				
Transfers (out)	<u>(185,000)</u>	<u>(215,000)</u>	<u>(215,000)</u>	
Net changes in fund balance	23,040	138,816	260,307	121,491
FUND BALANCE, JULY 1, 2005	<u>1,056,377</u>	<u>1,056,377</u>	<u>1,056,377</u>	
FUND BALANCE, JUNE 30, 2006	<u>\$ 1,079,417</u>	<u>\$ 1,195,193</u>	<u>\$ 1,316,684</u>	<u>\$ 121,491</u>

BRIGHTON AREA FIRE AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
CAPITAL RESERVE EQUIPMENT FUND
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Budgets</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Grant - federal	\$	\$ 92,600	\$ 92,600	
Sale of assets		18,000	21,189	3,189
Cost recovery	30,000	22,000	24,300	2,300
Interest	<u>8,000</u>	<u>16,000</u>	<u>18,482</u>	<u>2,482</u>
Total revenues	38,000	148,600	156,571	7,971
EXPENDITURES				
Capital outlay	<u>572,350</u>	<u>150,000</u>	<u>156,008</u>	<u>(6,008)</u>
Excess of revenues over (under) expenditures	(534,350)	(1,400)	563	1,963
OTHER FINANCING SOURCES				
Transfers in	<u>180,000</u>	<u>180,000</u>	<u>180,000</u>	
Net changes in fund balance	(354,350)	178,600	180,563	1,963
FUND BALANCE, JULY 1, 2005	<u>632,153</u>	<u>632,153</u>	<u>632,153</u>	
FUND BALANCE, JUNE 30, 2006	<u>\$ 277,803</u>	<u>\$ 810,753</u>	<u>\$ 812,716</u>	<u>\$ 1,963</u>

BRIGHTON AREA FIRE AUTHORITY
SCHEDULE OF PENSION FUNDING PROGRESS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2006

In accordance with the Governmental Accounting Standards Board Statements No. 25 and 27, the following information is a required part of the basic financial statements related to the MERS retirement system.

FIRE EMPLOYEES

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded (Overfunded) Accrued Liability (UAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAL as a Percentage of Covered Payroll</u>
December 31, 2004	\$ 209,216	\$ 254,465	\$ 45,249	82.22%	\$ 323,163	14%
December 31, 2005	\$ 274,034	\$ 353,587	\$ 79,553	77.50%	\$ 290,150	27%

SUPPLEMENTARY
INFORMATION

BRIGHTON AREA FIRE AUTHORITY
COMBINING BALANCE SHEET - SPECIAL REVENUE FUNDS
JUNE 30, 2006

		Capital Reserve Equipment Fund	Compensated Absences Reserve Fund	Total
	<u>ASSETS</u>			
ASSETS				
Cash		\$ 784,095	\$ 55,819	\$ 839,914
Accounts receivable		46,443		46,443
Due from other funds		<u>10,706</u>		<u>10,706</u>
Total assets		<u>\$ 841,244</u>	<u>\$ 55,819</u>	<u>\$ 897,063</u>
	<u>LIABILITIES AND FUND BALANCE</u>			
LIABILITIES				
Accounts payable		\$ 28,528	\$	\$ 28,528
FUND BALANCE		<u>812,716</u>	<u>55,819</u>	<u>868,535</u>
Total liabilities and fund balance		<u>\$ 841,244</u>	<u>\$ 55,819</u>	<u>\$ 897,063</u>

BRIGHTON AREA FIRE AUTHORITY
 COMBINING STATEMENT OF REVENUES,
 EXPENDITURES AND CHANGES IN FUND BALANCE -
 SPECIAL REVENUE FUNDS
 FOR THE YEAR ENDING JUNE 30, 2006

	Capital Reserve Equipment Fund	Compensated Absences Reserve Fund	Total
REVENUES			
Grant - federal	\$ 92,600	\$	\$ 92,600
Cost recovery	24,300		24,300
Sale of assets	21,189		21,189
Interest	<u>18,482</u>	<u>1,254</u>	<u>19,736</u>
Total revenues	<u>156,571</u>	<u>1,254</u>	<u>157,825</u>
EXPENDITURES			
Compensated absences		25,482	25,482
Capital outlay	<u>156,008</u>		<u>156,008</u>
Total expenditures	<u>156,008</u>	<u>25,482</u>	<u>181,490</u>
Excess of revenues over (under) expenditures	563	(24,228)	(23,665)
OTHER FINANCING SOURCES			
Transfers in	<u>180,000</u>	<u>35,000</u>	<u>215,000</u>
Net changes in fund balances	180,563	10,772	191,335
FUND BALANCE, JULY 1, 2005	<u>632,153</u>	<u>45,047</u>	<u>677,200</u>
FUND BALANCE, JUNE 30, 2006	<u>\$ 812,716</u>	<u>\$ 55,819</u>	<u>\$ 868,535</u>

BRIGHTON AREA FIRE AUTHORITY
STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006

	Final Budget	Actual	Variance Favorable (Unfavorable)
PERSONNEL			
Wages - Chief	\$ 85,455	\$ 82,023	\$ 3,432
Wages - Fire Marshall	37,600	37,846	(246)
Wages - Deputy chiefs	8,000	6,237	1,763
Wages - Assistant chiefs	114,000	114,749	(749)
Wages - Captains	43,100	40,706	2,394
Wages - Lieutenants	108,200	104,870	3,330
Wages - Sergeants	55,600	54,122	1,478
Wages - Firefighters	270,000	263,774	6,226
Contracted services - Jr. Fire Department	4,000	4,000	
Wages and contracted services - inspectors	84,500	94,225	(9,725)
Wages - Fire board (per diem)	13,250	12,625	625
Wages - clerical	36,400	38,015	(1,615)
Wages - compensated absences		16,752	(16,752)
Employee benefits	165,000	150,767	14,233
Payroll taxes	75,100	72,740	2,360
Total personnel	<u>1,100,205</u>	<u>1,093,451</u>	<u>6,754</u>
PROFESSIONAL SERVICES			
Accounting and audit	27,000	26,587	413
Legal fees	7,500	4,308	3,192
Other - Human resources	15,000	9,296	5,704
Total professional services	<u>49,500</u>	<u>40,191</u>	<u>9,309</u>
INSURANCE	<u>131,500</u>	<u>101,602</u>	<u>29,898</u>
EQUIPMENT AND SUPPLIES			
Equipment rental	5,700	5,424	276
Medical supplies	6,000	4,641	1,359
Office supplies	24,000	22,178	1,822
Repairs and maintenance	85,000	74,228	10,772
Uniforms and turn-out gear	29,000	8,700	20,300
Computers and records management	15,000	16,132	(1,132)
Gas and oil	25,000	24,869	131
Total equipment and supplies	<u>189,700</u>	<u>156,172</u>	<u>33,528</u>
UTILITIES			
Electricity	18,000	17,852	148
Gas	22,000	17,524	4,476
Electric and gas - Dorr Road	9,750	8,052	1,698
Total utilities	<u>49,750</u>	<u>43,428</u>	<u>6,322</u>

BRIGHTON AREA FIRE AUTHORITY
STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL (continued)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
CONTRACT - HOWELL FIRE	\$ 330,000	\$ 330,000	\$
DUES AND SUBSCRIPTIONS			
Hazmat	3,500	3,500	
Memberships	<u>4,000</u>	<u>4,062</u>	(62)
Total dues and subscriptions	<u>7,500</u>	<u>7,562</u>	(62)
PHYSICALS AND VACCINES	<u>15,000</u>	<u>7,600</u>	7,800
TRAINING AND INSTRUCTORS			
Training supplies	20,000	17,803	2,197
Recertification costs	500	350	150
Conferences and public information	<u>11,500</u>	<u>9,678</u>	1,822
Total training and instructors	<u>32,000</u>	<u>27,831</u>	4,169
TELEPHONE AND COMMUNICATIONS	<u>26,000</u>	<u>27,834</u>	(1,834)
VEHICLE - LEASE	<u>11,000</u>	<u>10,560</u>	440
BUILDINGS			
Cleaning supplies	4,100	3,193	907
Upgrades and maintenance	<u>20,500</u>	<u>22,207</u>	(1,707)
Total buildings	<u>24,600</u>	<u>25,400</u>	(800)
EMERGENCY FUNDS	<u>10,000</u>		10,000
FIRE INVESTIGATION SERVICES	<u>5,000</u>		5,000
Total expenditures	<u>\$ 1,981,755</u>	<u>\$ 1,871,231</u>	<u>\$ 110,524</u>

October 30, 2006

Honorable Board of Trustees
Brighton Area Fire Authority
615 W. Grand River
Brighton MI 48116

Dear Honorable Board of Trustees:

During the audit process for the year ending June 30, 2006, certain items came to our attention which we would like to discuss with you. Those items are as follows:

1. COMMENT

We came across some payments made by the Authority which had a vendor's statement as the basis of payment.

RECOMMENDATION

The Authority should always require vendor invoices (not statements) be used as the basis of payment to help ensure a charge is not paid twice.

2. COMMENT

The Authority was approved for a "Safer" Grant totaling \$41,528 over a four year period (\$10,382 each year). The grant is a reimbursable grant (grantee must have an invoice payable/or paid which is related to the Safer Grant prior to requesting funds). The Authority requested and received the first installment of the grant of \$10,382. The Authority has only spent \$8,287 of the first installment.

RECOMMENDATION

The Authority should only request a grant reimbursement once the requested amount has been spent or is payable to a vendor.

3. COMMENT

We noticed Thank You letters from the Authority to donors did not have a required statement by the IRS: "You did not receive any tangible benefit as a result of your donation".

RECOMMENDATION

For future donations, the aforementioned statement should be used in the Thank You letter.

4. COMMENT

The Authority sold some vehicles to the State of Michigan. We noticed the vehicles were listed as being covered under the Authority's insurance policy after the sale date.

RECOMMENDATION

Vehicles should be removed from insurance coverage once they are sold.

5. COMMENT

The Michigan Unemployment Form UIA 1017 is being filled out incorrectly at various times. The part-time/on-call firefighters are appearing on the form and should not be included as covered employees.

RECOMMENDATION

The payroll company should be contacted to inquire how to resolve this problem.

6. COMMENT

A bank account was opened on behalf of an injured firefighter. Fund raisers were done to assist the firefighter with medical bills, etc. The monies were put into the bank account which was in the Authority's name and Federal ID number. The activity was not posted to the General Ledger.

RECOMMENDATION

In the future, all financial activity of the authority should be recorded into the General Ledger.

We would like to thank the Authority officials, accountant and employees that assisted us during the audit process for their cooperation.

If you should have any questions, comments or concerns please do not hesitate to call us.

This report is intended solely for the information and use of the Board of Trustees and management of The Brighton Area Fire Authority and is not intended to be and should not be used by anyone other than the specified parties.

Pfeffer, Hanniford & Palka, P.C.

PFEFFER, HANNIFORD & PALKA
Certified Public Accountants